THE PENSIONS MANAGEMENT INSTITUTE &
INTERNATIONAL EMPLOYEE BENEFITS ASSOCIATION

April / October 2020

International 2: Managing International Employee Benefits

Examiners Report

Due to Covid-19, the April 2020 exam was postponed until October 2020. All learners took the exam on-line.

16 learners took the exam, of which 12 passed and 4 failed.

The paper had a new format and included a choice of two long-answer questions with up to 60 marks on each. The purpose of these questions was to allow learners to show how much they know about international employee benefits (including knowledge of specific benefits in a range of countries) and apply this to a wider business setting. The long-answer questions require learners to provide opinions, and to provide reasons for and against different positions – for such questions there is no single right answer, and examiners are testing how well learner applied their knowledge to the question, and to provide reasoning to support their views.

For the long-answer question, answers are given a grade on a 5-point scale, and the grade is then multiplied by 12 to provide the final score for the question.

In general, the long-answer questions were well answered:

- 2 learners scored a Grade 5 for the question (so received a total of 60 marks) and passed the exam (they were both awarded prizes for their scripts)
- 11 learners scored a Grade 3 or 4, and passed the exam (they also did well on the other questions)
- 1 learner score a Grade 3 but did not do so well on the other questions, and failed the exam
- 2 learners scored a Grade 2 and failed the exam (in order to pass they would have had to have done phenomenally well on the other questions)

In order to pass the exam, learners really need to score a Grade 3 or above on the long-answer question and ensure they provide decent responses to the other questions (ie scoring around 60% of the available marks). If they only score a Grade 2 or less, then it will be unlikely they will pass the exam.

The long-answer question has 60 marks available. The examiners expect that learners will spend 1.5 – 2 hours on this question, and it is expected that the answers will be at least 3-4 pages long. Some learners provided relatively short answers eg 2-3 pages. Short reports, even if well-structured and containing key points, will generally not be sufficient to gain a decent grade and gain anywhere near 60 marks. Since 60 marks are available, the examiners do expect learners to show off what they know, and to make the most of the time available to write an appropriate length report.

This report contains the following appendices to help learners understand the standards required for the long-answer question

- Appendix 1- summary of approach for grading the long-answer question
- Appendix 2 – example of a Grade 5 answer to a long-answer question (ie a very strong answer, and a clear pass)
- Appendix 3 - example of a Grade 3 answer to a long-answer question (ie just meeting the standard expected to pass)
- Appendix 4 - example of a Grade 2 answer to a long-answer question (ie not meeting the standard expected required to pass)

CH January 2021

Question Number:1	
A company is acquiring a large industrial company with over 100,000 employees, 250,000 pensioners, and operations in 100 countries. Describe, with reasons, four countries they should focus on for initial due diligence. (12 marks)	
Range of Marks Median:8 Upper Quartile: 10; Lower Quartile: 6	
Examiners' Comments *This question was well answered, with most candidates demonstrating a range of knowledge of key issues in specific countries that have implications for mergers and acquisitions. Examiners were looking for candidates to apply the information in the M&A part of the Part 2 manual to countries from both manuals (especially countries in Part 1 where defined benefit plans are widespread, and which are also mentioned in the M&A section of Part 2)* *Due to the large number of pensioners, learners were expected to realise that the company would have had significant defined benefit pension and post-retirement medical plans. Since the company was in 100 locations, learners should have chosen 4 countries where defined benefit plans are widespread, and to explain why these countries had been chosen* *Most learners included UK, US and/or Germany in their list of countries. Other countries chosen included France, Switzerland, Netherlands.* *Since there were 12 marks in total, examiners were expecting candidates to provide 3 good reasons for each country, with 1 mark awarded for each reason.* *The list below highlights the reasons that would have obtained a mark. Since the question asked learners to describe each point, the examiners expected the candidates to provide a short description for each point (rather than to just list reasons)* *UK* • *DB pension plans so need for pricing adjustments and working out what liabilities to transfer* • *Section 75 debts* • *Any other good reason eg Trustee demanding additional funding if covenant weakened* *USA* • *DB pension plans so need for pricing adjustments and working out what liabilities to transfer* • *Post-retirement medical plans* • *Any other good reason eg multi-employer plans not being fully funded & special contribution needed upon leaving* *Germany* • *Unfunded book reserve liabilities, so ensuring appropriate allowance for provisions* • *Works councils, so making potential changes to benefits difficulty* • *Any other good reason eg contributions may be paid if leaving a public-sector plan*	
Manual Section	Part 7 (Mergers & Acquisitions)

Question Number 2	
State three key differences between US GAAP and IAS19 in relation to accounting of post-employment and other benefit costs. (3 marks)	
Range of Marks Median: 1 Upper Quartile: 1; Lower Quartile: 0	
Examiners' Comments *This question was poorly answered. However, as only 3 marks were available, a poor answer on this question did not generally affect the overall result for the paper (so many learners who scored badly on this question still passed the exam)* *The information to answer this question was found in different parts of the manual. For Paper 2, examiners expect learners to draw upon knowledge from the whole manual. In particular, the Current Topics section included information on pensions accounting which examiners were also expecting learners to use.* *Full marks would have been obtained by stating the three reasons below:* • *Expected return on assets (ERA) - IAS19 uses discount rate, US GAAP uses ERA* • *IAS19 has immediate recognition of gains and losses (US GAAP allows amortisation through P&L)* • *One other eg IAS19 requires pension cost to have 3 components - service cost, net interest cost and re-measurements; different methods for risk benefits; different disclosure requirements (eg assets, multi-employer plans)*	
Manual Section	Study Manual- Part 3 1.5.3 (Accounting for Long Term Employee Benefits); Part 8, 1.1.7 (Current Topics)

Question Number 3
Employees of a French company are moving to work with the company's subsidiary in Canada. Explain how the employees can remain, or keep links, to the French pension systems. (5 marks)
Range of Marks Median:3 Upper Quartile: 4; Lower Quartile: 2
Examiners' Comments *This question was reasonably well answered.* *Canada is not included in depth in the study manual, and the choice of having such a country was intentional. This could have thrown some learners, but this did not turn out to the case. The examiners wanted learners to focus on how employees could remain in the French system without worrying too much about the country that employees were transferring to.* *The examiners awarded marks for the points below – anyone who provided 5 or more of these points were awarded full marks* • *If employee is a "detached" expatriate, they will still stay in French social security* • *Detached expats also remain in ARRCO/AGIRC* • *The period they can remain in the French system depends on social security treaties with the host country* • *After that period, they can join a voluntary insurance plan* • *This can be done if the French employee has an attachment with the relevant Caisses* • *Or employee can do this on an individual basis (through CFE and CRE-IRCAFEX),* • *Private plan membership depends on plan rules*

Manual Section	Part 6, 1.8.3 (Internationally Mobile Employees – Notes on a selection of countries)

Question Number 4	
List factors a company should consider when selecting a location for an international pension plan (10 marks)	
Range of Marks Median:7 Upper Quartile: 8; Lower Quartile: 5	
Examiners' Comments *This was a bookwork question, and examiners expected learners to simply list the points from the relevant section of the manual (or from their own knowledge of IPPs). Full marks were given if 10 points were made. In some cases, candidates did not score the full mark for a question if sufficient detail was provided (especially the points on local taxes and the flexibility of local law)* • *Political and economic stability* • *Flexibility and sophistication of local law; for example, if a trust structure is desired, the location should have a well-established trust law regime (Bermuda, the Channel Islands and the Isle of Man are examples of jurisdictions with well-established trust law regimes)* • *Potential for exemption from FATCA and CRS reporting* • *Availability of competent and experienced local service providers* • *Reputation as a sophisticated financial service centre* • *Freedom from local taxes, but also, ideally, tax recognition by the home countries where members are tax resident—it should be noted that, typically, home countries will not recognise the pension regimes of these international finance centre locations for tax purposes* • *Minimal benefit restrictions and the ability to take benefits in lump sum form* • *Freedom from exchange controls* • *Linguistic ability e.g. multilingual staff retained by service providers. (Luxembourg, Switzerland and Liechtenstein are good locations from this point of view).* • *Being a EU state (so plan is covered by IORP2) eg Luxembourg, Ireland, Liechtenstein* • *Being taxed in the same way as a domestic plan* • *Up to two other good reasons*	
Manual Section	Study Manual Part 6, 1.7.3 (Internationally Mobile Employees – International Pension Plans)

Question Number 5	
A global company with its own multinational pool has found that the pool made a loss in 2019; and that no dividend is payable. List five different reasons that have caused the pool to have create a loss; and suggest five actions that the company could take to make the pool profitable in future years. (10 marks)	
Range of Marks Median:6 Upper Quartile:8; Lower Quartile: 6	
Examiners' Comments *This question was designed to test knowledge of multinational pooling, and to apply their knowledge to the specific question.* *Examiners gave up to 5 marks for listing five reasons; and up to another 5 marks for suggesting 5 actions. Candidates who did not obtain extra marks if they provided more than 5 reasons or actions* *Reasons that could have caused the pool to create a loss* • *Claims and other outgo exceeds premiums* • *Losses have been brought forward from prior years* • *High claims ratio* • *Very low premiums* • *Other factors based on pooling account (eg large increase in reserves, high risk/admin charges; plan too small so not benefiting from actual company experience)* • *Any other good reason* *Actions that could be taken to make the pool profitable* • *Remove loss making policies* • *Review underwriting terms to improve premiums/coverage* • *Add additional policies that could bring positive results* • *Change method to protect against losses, eg stop loss or loss carried forward* • *Move pools/insurers to other providers with lower expense/risk chargers* • *Up to two other good examples.*	
Manual Section	Part 4, Chapter 1 (Multinational Pooling)

Question Number: 6a and 6b
Learners had a choice of 2 long-answer questions. This was the first time such questions have been asked under Paper 2, and the examiners were very pleased with how they were answered. The aim of the questions is to test learner's knowledge of the whole study manual and allow them to apply this to a particular setting. Learners were also asked to provide views and opinions and were marked for the quality and reasoning for their opinions. Examiners graded each answer on a 5-point scale (with 5 being the highest). The grade was multiplied by 12 to obtain the final mark (eg so a candidate obtaining a grade 4 would have been given total a score of 48). In some cases, examiners awarded an additional half-point (eg 3.5 points were awarded if answers were well above the standard needed to achieve 3 points but not at the standard needed for 4 points – in this case the final score would have been 42 ie 12 x 3.5) The long-answer questions were marked in accordance with the guidance on IEBA Exam Question Structure ("Test Specification") document (on the PMI website). This is also contained in Appendix 1 of this Report. https://www.pensions-pmi.org.uk/media/q5ckojv2/ieba-exam-question-structure-oct-2020.pdf The Test Specification included two example questions. The examiners hoped that learners attempted these before the exam. For the October 2020 exam, the final questions contained a number of similarities with the test questions, and this was intentional to ensure learners were as well prepared as possible for this type of question. Learners who did not try the Test Specification questions may have found the exam questions more difficult. The examiners have no way of knowing how learners prepare for the exam, but they do expect learners to look at past papers and test questions.

Question Number: 6a
You work for a large Chinese life insurance company which wants to expand and acquire businesses across three regions: Asia (including Russia but excluding Australia); Middle East and Africa; and South America. You have been asked to write a report to help the Head of Group Strategy identify key markets and corporate employee benefit products that the company should focus on. Your report should contain analysis of employee benefit insurances and savings products for employees of companies across these three regions (including the potential demand from employers and employees), and provide a recommendation, with reasoning, on two countries the company should focus on initially. Your report should also provide comments on whether head offices of multinationals should be the principal customers of the insurance company as it expands. (60 marks)
Range of Marks Median:36 Upper Quartile: 36; Lower Quartile: 24

Examiners' Comments

This question was chosen by 5 of the 16 candidates.

3 achieved a Grade 3 or 4 (scoring 36 or 48 marks); and 2 received a Grade 2 (scoring 24 marks). The two Grade 2s failed the exam, as did one of the Grade 3s (as they did not score enough marks on the other questions so did not meet the overall pass mark)

In assessing each learner's answer, and awarding the final Grade, the examiners took account of the following:

Structure of report (introduction, content, recommendation, conclusion)

- *Clarity of writing*
- *Country examples (marks per country for up to 6 countries - examples needed from Asia, MEA and LatAm)*

Applying knowledge of international benefits management

- *Breadth of knowledge (range of topics, and showing wide/sophisticated range of knowledge)*
- *Depth of knowledge (good level of detail where needed)*

Specific knowledge for the question

- *Summary of prevalence of employee benefits; and whether insured*
- *References to life, disability, medical and pension plans*
- *References to voluntary (ie employee-financed products)*
- *Services that can be provided to head offices (eg governance, pooling, global agreements, global platforms)*
- *Comments on potential customers other than head offices (eg subsidiaries, consumers, vendors)*
- *References to China market; and how China insurer may think differently from those in other countries*
- *Examples from outside course material*

Structure of recommendation

- *Explanation for the 2 countries chosen*
- *Inclusion of arguments and counterarguments in the report to support recommendation*

Question Number 6b

You are reading a media article about a large expanding Chinese technology and internet company with operations and businesses around the world.

The new CEO of the company has said that employers around the world should not spend money on pensions and medical plans. He has said these are costly, are not part of employer core business activities, expose organisations to legislative and compliance risks, and are not always appreciated or needed by employees He has said that because many employees would: prefer cash, especially younger employees for whom retirement is 30-40 years' away; may have debt to pay off; and/or want to save and spend in other areas.

He has also said it should not be the role of employers to provide medical and retirement arrangements, and this should be the responsibility of the state and individuals.

He has suggested that the most effective way of helping employees is to just give them cash compensation (eg salaries, overtime, bonuses, stock plans, cash allowances) and leave them free to spend money as they wish (including setting up and paying contributions to personal savings and medical plans).

Do you agree with the CEO's view that employees should not provide pension and medical plans, and they should just give employees cash?

Write a report which explains why he may be right, explains why he may be wrong, and has a conclusion where you explain whether you agree with him. Provide examples of practices in at least eight different countries (including at least five in Europe and North America) to help support the points you make in your report.

(60 marks)

Range of Marks

Median:42

Upper Quartile: 54; Lower Quartile: 36

Examiners' Comments

This question was chosen by 11 of the 16 candidates.

2 achieved a Grade 5 (scoring the maximum 60 marks), 10 achieved a Grade 3 or 4 (scoring 36 or 48 marks); and 1 received a Grade 2 (scoring 24 marks). The one Grade 2 failed the exam – all other learners passed the exam (all the Grade 3s scored enough marks on the other questions to meet the overall pass mark).

In assessing each learners answer, and awarding the final Grade, the examiners took account of the following:

Structure of report (introduction, content, recommendation, conclusion)

- *Clarity of writing*
- *Country examples (marks per country for up to 8 countries - of which at least 5 from Europe and NAM)*

Applying knowledge of international benefits management

- *Breadth of knowledge (range of topics, and showing wide/sophisticated range of knowledge)*
- *Depth of knowledge (good level of detail where needed)*

Specific knowledge for the question

- *Summary of state provision in different countries and whether it is generous*
- *Comments on the need for employees to have non-state provision*

- *Comments on whether employers tend to help employees have additional benefits*
- *Reference to saving for retirement*
- *Reference to options for employers to help employees pay off debt (eg loans assistance)*
- *References to tax advantages*
- *References to role employer can have in accessing good products more cost effectively & in communications*
- *Comments that cash can be spent - and employees may have hardships if they fall sick or retire*
- *References to employers being in a good position to manage benefits*
- *References to benefits helping with attraction & retention/employer of choice*
- *Examples from outside course material*

Structure of recommendation

- *A statement to show whether or not the candidate agrees with the CEO's view*
- *Provision of reasons to support the recommendation (if is CEO right or wrong)*
- *Provision of counterarguments (eg reasons for the other position)*
- *Explanation as to why arguments for outweigh counterarguments against*

Appendix 1
Summary of approach for grading the long-answer question

The long-answer questions were marked in accordance with the guidance on IEBA Exam Question Structure ("Test Specification" document (on the PMI website)
https://www.pensions-pmi.org.uk/media/q5ckojv2/ieba-exam-question-structure-oct-2020.pdf

There will be a choice of two long-answer questions. ***Candidates should answer one question only.*** *Marks will only be given for one question. No extra marks given for answering both questions.*

If answers are provided to both questions, marks will be given to the question started first (unless the answer to that question is crossed out, in which case marks will be given to the question started last). The questions will be designed to allow learners to demonstrate their range of understanding, knowledge and report writing skills. Questions may require learners to demonstrate the employee benefits needs of global companies and products offered by global insurers and other vendors. Learners should provide examples from a range of countries (at least six) and take account of emerging trends. If the question asks for a recommendation, then candidates should provide a recommendation and the reasons behind the recommendation.

Examiners will grade each response on a 5-point scale (see table below). The final grade will be multiplied by 12 to form the actual mark for each question. For example, if the question is awarded a grade of 3, the final mark will be 36 (ie 3 x 12). Half points may also be given, so if the final grade is, for example, 4.5, the final mark will be 54 (ie 4.5 x 12)

Grade	*Description*
0	*Trivial, irrelevant or absent response. A fail.*
1	*Answer that has some relevance to the question, but which does not address the question in the way demanded. The report lacks logic, has little focus or has serious errors that render it confusing or incoherent. A report at this level is significantly below the level required to be a diploma holder; and is quite likely to be an overall fail.*
2	*Report fulfils most of the requirements of the question but may misinterpret important aspects of the question. The report is set out in a relatively logical manner, but the learner has misinterpreted some aspects of the question or has missed out key aspects of the question. Insufficient detail provided, and few examples given. When asked to provide alternative views (eg pros and cons; or to suggest reasons for and against) or recommendations, these views and recommendations are missing or weak. A report at this level is deemed to be just below, or close to, the minimum level required to become a diploma holder. Learners at this level could potentially be awarded the diploma if they score very well on other parts of the paper.*
3	*The report addresses all aspects of the question and presents good arguments to support recommendations and alternative views. The arguments in the report, but lack sophistication and scope; and could be supported by better examples (with few or no examples from outside of the course material). The learner may have missed out key parts of the arguments. A report at this level is deemed to be at the minimum level required to become a diploma holder.*
4	*A good report addressing all aspects of the question with clear and balanced arguments, counterarguments, and recommendations. Few weaknesses. Reasonable depth and breadth of knowledge shown (eg relevant country examples) with few weaknesses. A report at this level is deemed to be more than the minimum level required to become a diploma holder.*
5	*An excellent report with virtually no weaknesses. All aspects of the question are addressed. The writing is clear and completing with effective structure and logic. The arguments are sophisticated and presented with a good breadth and depth of knowledge (including from outside of course material). A potential prize-winning script. Fewer than 15% of scripts are expected to be scored a 5.*

Appendix 2
Example answer (Grade 5) – Question 6b

A recent article from a large Chinese technology company's CEO downplayed the importance of employers spending money on employees' pension and benefits. Instead the CEO pointed towards providing cash for employees to enable them to spend the money as they please. This report highlights areas where the CEO assertion may be correct with a particular focus on how employee benefits are changing. However, there are areas where this assertion is wrong both from a local perspective and globally. This report will focus on where they may be right, where they might be wrong and concluding thoughts on the argument.

Reasons the CEO may be right and employee pension and benefits are not of importance

This first section will focus on how employee benefits are changing as well as practices where a cash benefit may be more beneficial to employees. It will focus on these areas:

- Trend towards people living longer and not being able to afford to retire;
- The desire to offer more flexibility and choice to employees;
- Increased mobility of workforces and associated legislation limiting
- portability of benefits; and,
- Local customs and practices.

<u>People living longer</u>

Globally, the life expectancy of people around the globe is increasing. With this, people face the real prospect of not being able to afford their retirement. As such, even with employers contributing to employees' pension schemes, employees may not have enough to live the retirement they envisage. With employees living longer, employers also face a longevity issue with their retirement benefits. From a DB perspective, the risk is employees are living longer so they have a larger liability to fulfil. From a DC perspective, employers need to contribute more to fund peoples retirement but are often limited by tax limits.

There are good examples of this. In Japan, hybrid plans are most common with a level of guarantee underpinning an employee's pension benefits. Japan also has one of the highest life expectancies in the world meaning that this funding must continue for a longer period of time.

So why would this be a reason not to contribute to employees' retirement? Firstly, with people facing the prospect of not being able to afford retirement, there is an argument that employee's would rather have the cash now to fund other purchases such as buying a house or lifestyle preferences such as holidays. More on the desire to provide flexibility in the next section.

Sticking with the example of Japan, there is also the cultural practice in Asia that young people look after their older relatives. As such, a 30 year old may have their own children to look after, 2 parents and 4 grandparents. This is particularly prevalent in China, where the CEO who made this assessment is working, due to the One Child Policy. Therefore, there is a desire in Asia to value cash or cash lump sums to support relatives now.

<u>Desire to offer flexibility</u>

Employers are now looking to offer choice to employees on how they engage with their benefits. This may take two forms. Firstly, through a flex programme, which is fairly common in the UK. The flex programme, usually operated through a flex platform, enables employees to select the benefits they want. This may not lend itself to pension and medical benefits but rather discounts on technology or holidays, savings products, or travel insurance.

The other way to offer flexibility is to enable employees to make selections on the level of cover offered. For example, in medical benefits you may offer the ability to cover your family or make the policy an international policy.

By offering flexibility, employers may offer benefits that enable employees to make choices which are most relevant to them. This way the benefits are more valued which supports the CEO's argument.

Increased mobility of workforce

Workforces are becoming more mobile with employees desiring secondments or permanent moves abroad. Under the legislation of some countries, being tied down with retirement benefits that are not portable is no use to the employee. For example, in France employees are unable to take their pension benefits out of France and are unable to pay in their pension benefits from another country. This limits the portability of the retirement benefits due to compliance issues and means that a cash allowance would be far more desirable. Similarly, in Spain, it is possible to bring your employee benefits into the country but it is not possible to transfer them outside Spain. A similar, tax charge is experienced in the USA and in Australia.

This is also the case of medical benefits with most medical benefits only being available in the country of insurance or through national health programmes. International medical plans are possible but are far more expensive to the employer.

Therefore, the CEOs argument may be that providing employees cash to invest or seek out their own medical coverage may be more desirable. However, there are compliance issues with this which will be covered later on.

Local customs and practice

A final point to consider is the local market custom and practices. In some parts of the word, particularly emerging markets such as Russia and parts of Asian, retirement provision and benefits are not common or established. As such, spending money on employees benefits may not be appreciated. For example, in Russia there is the preference towards having cash over a pension as life expectancy is lower than other parts of the world and due to historical cultural standpoints that cash is better now rather than later. Similalry, in parts of Asia, Africa and other merging markets, the pension and medical benefits market is not established or sophisticated. As such from an employer perspective it may be more beneficial to provide a cash allowance.

Local customs and practices can also be argued the other way, along with other factors which will form the next section.

Reasons the CEO is wrong and employee pension and benefits should be provided by companies

Whilst there are points that support the CEOs argument on not providing pension and medical benefits, there are a number of reasons it is important to provide employee benefits. These reasons fall under the following headings:

- Compliance and local customs;
- Tax advantages and positive accounting methods;
- Points of parity with competition; and,
- Governments shifting responsibility to employers.

Compliance and local customs

In many countries, there is a mandatory requirement to enrol employees in pension and medical plans. Just some examples include the French ACCRO/AGIRC pension system and national health service, the Swiss BVG and national health service, and the German state medical requirement. These are three examples of countries enforcing mandatory benefit requirements on employers.

Even in China, where the company the CEO manages is from, requires all employees participate in their social security programme with foreign nationals included in that grouping.

Similarly, in India with no social security, the government requires that all entities with over 20 employees to enrol their employees in the Employee Provident Fund which covers retirement benefits (EPS) and death insurance (ESIDL).

Another example, is in the UK where employer pension participation is voluntary but employers are required to enrol their eligible employees (those over 22 under state pension age, earning over £10,000) into a qualified pension plan. This is an example where employers face fines if they do not meet their requirements.

Whilst an employer may not wish to fund or participate in employee benefits globally, in many parts of the world, they do not have a choice. Not participating opens the company up to risks such as fines.

Tax advantages and positive accounting methods

In most countries, there are tax advantages for both the employer and employee for contributing to retirement benefits and in some cases medical benefits as well.

In the UK, employers can make contributions to company schemes within an employee's annual allowance (£40k; tapering down to £4k for high earners) and lifetime allowance (£1.07m).

In China, contributions to social security pension benefits are tax deductible for employees and employers and tax deductible up to 15% for the Enterprise Annuity provided they do not exceed one sixth of last year's payroll and benefits in payment are tax free. Plus medical contributions are tax deductible up to 4.75% for the employer and 1.75% for the employee.

In Russia, contributions are tax free for employer and employee to pension benefits, and benefits in payment are tax free.

In Brazil, benefits in payment can be taken under a progressive method, which is based on the amount, or regressive method which is according to the term. Thus enabling employees flexibility.

In many countries in Europe, pension contributions follow an exempt, exempt, taxed rule on contributions, investments and benefits in payment respectfully.

In all these examples, as well as not being taxed, an employee or employer may make investment returns on their funds which therefore increase the money invested. The cash equivalent will not only be taxed but will not have a chance to grow unless an employee takes action. As such for both the employer and employee it is often more advantageous to receive pension or medical contributions over a cash allowance as suggested by the CEO.

The company can also take advantages of advantageous accounting methods when funding pension liabilities. Pension liabilities can be recorded as a separate credit or liability on the balance sheet which does not have an impact on the company's profit and loss.

Points of parity with competition

One of the primary reasons for offering employee benefits is to attract and retain the best talent against your competitors. Whilst there is not a requirement for a company to be leading edge or market leaders with their employee benefits which may be costly, the CEO in question would risk losing key talent to competition if they removed employee benefits in certain regions.

The best example of this is medical coverage in the USA. Medical coverage in the USA is on the whole privatised with the exception of Medicare for the over 65s. As such, employees place the upmost importance in ensuring that their employer can provide access to private medical care at an affordable cost. In many cases in the States, the employer will pay 70-90% of premiums depending on the treatment with the employee making a co-payment. This significant reduces the cost to employees and enables them in many cases to cover their family as well. Without this option, many employees would be unable to afford medical care even with a cash allowance. As such, by not providing medical care, as the CEO suggests, the company would risk losing its workforce to competitors.

Governments shifting responsibilities to employers

As mentioned in the other categories, governments have increasingly put the responsibility on employers to meet employees' retirement and medical needs. Since the financial crisis, social security systems have struggled with low interest rates and with employees living longer. As such social security provisions are not deemed adequate to meet the needs of populations. Governments are therefore responding by encouraging or requiring companies to meet employees needs. Auto-enrolment in the UK is good example of this in response to the financial crisis, requiring employers to enrol employees in a pension scheme and make savings for their future.

India does not have social security and has required employers to make contributions for an employees future retirement through the EPF. It has also introduced the NPS since 2014 for smaller employers under 10 employees to save for their retirement or large expenses such as buying a house, or funding a child's education.

This is also seen in mandatory schemes in places such as the France and Switzerland.
In other regions in Latin America, such as Peru and Colombia, where the State is relied upon for all retirement benefits; or in Russia where the state system is deemed inadequate with a replacement ratio at around 20%, the value of employer pension schemes is recognised by employees.

Whilst this may be more costly to the employer, it means that employees will value the benefits more as they are not receiving adequate support from the government.

Closing argument

From the evidence presented, it is clear that the CEO's comments do have some validity with changes in the employee benefit and retirement landscape, such as people living longer, lending itself to more choice and employees perhaps favouring more immediate remuneration such as cash.

These changes have also made the provision of employee benefits more expensive and with more inherent risks for employers, particularly where benefits are promised and have a liability against the company.
However, I think it is wrong of this CEO to say that employers should not provide employee benefits and just provide cash.

Primarily, there is the compliance issue in many regions but particularly Europe which means that an employer must provide employees with certain benefits.

There is also the tax advantages that are available for providing employees benefits for the employee and employer which would not apply to cash remuneration. Failing to take advantage of these seems unwise for the employer and I am sure that employee's would be demanding opportunities to take advantage.

Finally, the other strongest argument is that if a company fails to provide benefits, they may be losing talent to other competitors who are willing to do so with medical benefits in the US as a prime example.

In sum, the CEO is clearly aware that the landscape and needs of employee benefits is changing but at this moment in time, it still remains important to offer benefits over cash from a compliance and competitive point of view.

Appendix 3
Example answer (Grade 3) – Question 6a

Chinese Life Insurance Company
Project expansion and acquiring new business
Date: 05 of October 2020

<u>Section 1: Background</u>

As part of our plans regarding expansions through acquisitions, this report has been compiled to identify and assess key markets across the three regions Asia (including Russia, but excluding Australia), Middle East and Africa and South America. Following the identification of key markets for expansion, an assessment of corporate employee benefit products that we should focus on.

In the following section you will find an analysis of the employee benefit insurances and savings products for employees of companies across these three regions and a recommendation on two countries that the company should focus on initially. There will also be comments on whether head offices of multinationals should be the principal customers of the company as we continue our expansion adventure.

<u>Section 2: Assessment of regions:</u>

<u>Section 2.1: Asia (Including Russia, but excluding Australia)</u>

Investigating the Asian market shows a cultural difference in relation to western countries as it is more usual for individuals to look after their elderly hence this is not a large in-demand benefit. For risk benefits the story is shown otherwise as it is seen as more market practice to provide especially within larger employers to supplement what is being offered in the local markets by the state. Especially the focus on medical is in high demand, but due to cultural difference from western society, where you take care of your elderly a more certain aspect of income is needed so a individual may be responsible for more than just partner and dependents but also elderly from both sides of a family.

As one of the hot topics within HR, there is a demand for the employee experience, this also means that the Asian market has seen an increase in demand for employees to make their own selection of benefits packages and a more flexible way of choosing their own insurances. This also relates to the less flexibility that there is within the retirement area in the region.

Based on this, the products to be mostly focused on in the region would be risk benefits and the availability of flexibility. Another key opportunity is the inclusion of three of the four BRIC countries, which are key markets.

<u>Section 2.2: Middle East and Africa:</u>

The region differs a lot when looking at especially retirement provisions, but a common similarity across the Middle Eastern countries is the End of Service Gratuity which is to be paid out once an individuals ends its service at an employer. This would usually be a lump-sum and is a risk when wanting to retain employees as part of an acquisition as they might take the money and leave the company. This is usually an unfunded promise that has potential risks for an employer in relation to their cashflow in particular in the event of an acquisition where a new contract is to be provided to the individual. One thing to note is that in many of the Middle Eastern countries there is a minimum mandate of local hires and these are the ones that are covered by this while many expats will not be included in this. Expats would normally have insured benefits in form of medical, disability and life insurances. When focusing more on the African countries, it is hard to tell similarities due to the colonization that has been. For certain countries you will see the market practice and provisions being more in line with what is seen in UK, while other countries like Morocco would have the looks of France. In general the most developed market would be South Africa, but in general there is beginning to be an opportunity for implementing benefits in Africa as more large multinationals start entering the markets and giving their employees these benefits.

Based on this, the products to focus on should be insured benefits and medical, while another benefit that is traditionally valued in Africa is funeral benefit. The threat for Africa is the lack of providers that we could acquire while for Middle East there is a limit to e.g. what could be provided in terms of life insurance as this is normally only seen for expats.

Section 2.3: South America:
Most retirement options are seen through state provisions and due to the unrest in the region politically many employees do not trust their money with the state, hence why there has been some development locally where e.g. Chile has made a new form several years ago to accommodate the needs of the individuals by giving them choices on funds. In South America the focus is as in the Middle East also on the legally mandated termination indemnity benefit. You would see that the provision of benefits in the region is mostly life, accident and medical is also a big premium due to the added pressure on the local statutory system.

Based on this, the products to be focused on would be risk benefits and medical, which are gaining exposure locally as more multinationals enter the market, while also one of the BRIC countries is located here.

Section 3: Thoughts and Recommendation on two countries:

Section 3.1: Thoughts and analysis:

When evaluating the regions and the opportunities for us as a Chinese life insurance company, we would have to take into consideration the opportunities and risk associated by expanding our business while also thinking of our core strengths.
We are already based in Asia and have the knowledge and cultural understanding here and there are great opportunities related to having three of the four BRIC countries in this region. There are many strong providers which is an opportunity for us to have a respected brand from the beginning, but these markets are also well developed which means that there is going to be a lot of competition for the clients.

Potentially we could consider entering the market in South America, as there is a potential big market going forward, there are respectable providers and an increasing level of focus on the benefits provided especially medical and life insurances

If our horizon for the deal is more holistic and long-term it could be seen as profitable to enter the market in Africa as there is a low level of competition by respectable providers and we could ensure to be first movers within this region by offering medical, life and funeral benefits. By ensuring a possibility of regional plans, we could also get ensure that we had the opportunity of the Middle Eastern Market at the same time.

Section 3.2: Recommendation on two countries:

Based on the above analysis in section 2 of the three regions and our thoughts given in section 3.1, our recommendation is to focus on expanding our services into India and Brazil.

Section 3.2.1: Brazil:
There is an increase in importance for supplementary company sponsored plans due to the lack of trust from nationals towards the social security. This is also seen as almost all multinationals provide supplementary healthcare benefits and risk benefits. We can also leverage on our experience within life insurances as even as this is not mandated by law almost all companies offers it to their employees while also giving accident and disability. There is also a market for providing these coverages by employers to the spouse and dependants. Once again I must mention the fact that Brazil is one of the important BRIC countries.

Section 3.2.2: India:

Based on the historical nature of India and the lack of focus on a strong social security system, which means that many employers will take the responsibility on their hands to secure to be compliant with their overall guidelines as a multinational. In India there is a big market in particular on the medical as the culture is that you take care of your elderly and as this is now the largest country in the world, there is a market for offering medical to both your spouse, dependants and parents and even grandparents in instances. There is also an opportunity to leverage on our experience within life insurance as most companies provide this with a lump sum. Again, please note India is a part of the important BRIC countries and with many opportunities due to the lack of social security and added responsibility of multiple persons life.

These recommendations are based on factors of general appropriate business expansion opportunities for more secure investments. If we wanted to be more long-term and risk willing, we could establish ourselves in the African region as we see many other Chinese companies starting to do locally. We could be first movers on developing new products here and enhance the level of local providers with our stronger and more global governance. It would be hard to define key countries based on their benefits provisions, but based on employees and where we foresee big multinationals expanding too, countries like Kenya and Nigeria would offer great future markets to be able to cover or in general develop regional provisions that could cover these huge amounts of opportunities.

Section 4: Customer focus:

In general we see that multinational companies are the ones that are focusing on their benefits on a global scale, so in general our recommendation is to have a focus on these and ensure that we have services on both local languages but also on English to service this. We do though see a risk of only focusing on Head Offices of multinationals as we are not large enough to be a global provider by only entering two new markets and we do not see the same expansion of HQ's in APAC to the rest of the world as we do with what Western multinationals have done, yet. One thing that we could do while growing is to join up with a respected pooling and captive network to ensure added placement of insurances with our company. This would also link us better with large multinationals.

We trust you will find this report will give you better clarity of the strategy and opportunities going forward. We look forward to go through the results with you.

Appendix 3
Example answer (Grade 2) – Question 66

Internal
FAO: Joe Bloggs, Head of Group Strategy, China Pacific

Analysis of Global Markets and Employee Benefit Provision - Future Trends

Executive Summary:

This report sets out to review and assess employee benefit provision across a variety of geographic areas and to identify the areas of potential growth that the Company may wish to tender for as part of it's global outreach strategy. The areas in scope for consideration are Asia (including Russia but excluding Australia), the Middle East and Africa and South America. There will be some economies outside of this scope of this report but where relevant to the proposals included, reference may be made to countries not examined in detail within the report.

Key Markets
1. Africa - South Africa is the most developed pensions industry in Africa but there is a lack of strong, established providers of Employee Benefits in the market. Companies have filled the void by providing benefit provision to their employees, There is a need for highly-skilled, competent local providers. There are single employer, multi employer and industry-wide DC pension schemes (Umbrella funds) and a proven appetite for pension provision.
2 Middle East - Varied pensions and employee market The provision of
2. Middle East Varied pensions and employee market. The provision of life insurance benefits can be problematic from a religious and cultural perspective.
3. South America - Brazil has the largest pensions market in Latin America. Again coverage amongst the 105 million economically active is not universal as less than half are covered by the existing pension provision. The economic and political environment have stagnated the pensions market in recent years but there is a significant history of pension provision and large population for whom pensions and employee benefits will be a significant future consideration.
4. Asia - varying provision of retirement and employee benefits (limited in scope), preference for delivery in lump sum form at retirement as their is cultural and financial requirement to care for parents/grandparents. Provision of a lump sum provides greater flexibility and is the preferred option rather than receiving a lifetime pension or annuity.

Focus
1. South Africa - Based upon my understanding of the pensions market in South Africa, i would position the Company's offering within the Pension Service sphere to provide administration for Companies on a DC basis. Our unique selling point (USP) will be relatively low-cost, professional administration services maximising efficiencies that single employer pension funds are unable to achieve. In the short to medium term, these administration services will be supplemented by additional employee benefits offerings, for example, life assurance benefits and medical insurance programmes for accidental death and disability. South Africa should not be seen as representative of Africa as a whole and there will need to be considerable work to identify and evaluate the next potential

market for the Company's expansion within the continent. It should be noted that there is considerable potential for growth in many other countries, for example Nigeria, Ghana and Kenya.
2. Brazil - Due to the population, size of the economy and need to extend the coverage of pensions and employee benefits to a wider demographic, this is another country where there is vast potential both from provision of pensions and insurance but also in time flexible benefits.

The geographic areas of focus, South Africa and Brazil, need further more detailed due diligence to understand whether foreign companies are treated favorably from a tax and legislative perspective and how China Pacific's presence in these countries will be responded to by employees/employers and the wider authorities. I hope this report gives an overview of the areas where development should be targeted going forwards.

In terms of first establishing contact in these locations, it may be prudent to engage with the head offices of multinationals initially to maintain head office oversight in these first interactions rather than allowing this to fall to local contacts.